

Message Text

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ACTION EB-07

INFO OCT-01 EA-07 IO-13 ISO-00 FEA-01 AGRE-00 CEA-01
CIAE-00 COME-00 DODE-00 FRB-03 H-01 INR-07 INT-05
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FM AMEMBASSY JAKARTA
TO SECSTATE WASHDC 8552
INFO AMEMBASSY BANGKOK
AMEMBASSY KUALA LUMPUR
AMEMBASSY MANILA
AMEMBASSY SINGAPORE
AMEMBASSY TOKYO
AMCONSUL HONG KONG
USMISSION GENEVA

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E.O. 11652: N/A

TAGS: ETRD, ID

SUBJECT: NEW GOI PROTECTIONIST MOVES

1. SUMMARY: GOI INTRODUCED JANUARY 1 STRINGENT NEW REGULATIONS ON SELECTED IMPORTS WHICH COMPETE WITH LOCALLY PRODUCED GOODS. AIM IS TO PROTECT INDUSTRIES DEEMED CAPABLE OF SATISFYING DOMESTIC DEMAND BY REQUIRING NON-INTEREST BEARING ADVANCE DEPOSIT OF 200 PERCENT OF PRICE PLUS 100 PERCENT OF DUTY FOR IMPORTS IN QUESTION. SO FAR ONLY TEXTILES AFFECTED BUT INDICATIONS ARE THAT PROTECTED LIST WILL BE EXPANDED. END SUMMARY.

2. AS OF JANUARY 1 NEW GOI POLICY OF PROTECTION FOR LOCAL INDUSTRY CAME INTO EFFECT. INTENT OF JOINT DECREE SIGNED
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BY MINISTERS OF FINANCE, TRADE, AND INDUSTRIES IS PROTECTION OF THOSE LOCAL INDUSTRIES DEEMED CAPABLE OF SATISFYING DOMESTIC DEMAND. HENCEFORTH DEPARTMENT OF INDUSTRIES WILL NOMINATE CANDIDATES FOR PROTECTION TO DEPARTMENT OF TRADE, WHICH CAN THEN SUBJECT COMPETING IMPORTS TO STRINGENT IMPORT REGULATIONS. BASED ON RECOMMENDATIONS BY THE OTHER TWO DEPARTMENTS, DEPARTMENT OF FINANCE CAN

ALSO ADJUST CUSTOMS AND OTHER TAXES ON IMPORTS. IN ADDITION TO RAISING COSTS OF IMPORTED FINISHED GOODS WHICH COMETE WITH LOCAL GOODS, THOUGHT IS BEING GIVEN TO LOWERING DUTIES ON RAW MATERIALS USED IN LOCAL PRODUCTION. DEPARTMENT OF TRADE ALSO HAS THE POWER TO SET CEILING PRICES ON DOMESTICALLY PRODUCED GOODS.

3. THE NEW LAW STIPULATES THAT IMPORTERS OF DESIGNATED GOODS ARE REQUIRED TO DEPOSIT WITH THEIR COMMERCIAL BANK AT THE TIME AN L/C IS OPENED 100 PERCENT OF THE VALUE OF IMPORT IN ADDITION TO A SECOND 100 PERCENT AS GUARANTEE. THE LATTER IS SUBJECT TO FORFEIT IF THE IMPORTER IS FOUND GUILTY OF PHYSICAL OR ADMINISTRATIVE MANIPULATION. ALTHOUGH ONE EFFECT OF THE GUARANTEE SHOULD BE TO REDUCE MANIPULATION, DEPARTMENT OF TRADE OFFICIAL SAYS THIS IS NOT ITS INTENT. REQUIREMENT IS THERE SIMPLY TO RAISE PRICE FURTHER. IMPORTERS ARE ALSO RQUIRED TO DEPOSIT IN A CUSTOMS ACCOUNT THE FULL AMOUNT OF IMPORT DUTY BASED ON THE CHECK PRICE. (ALL IMPORTS HAVE A CHECK PRICE SET BY GOVERNMENT FOR CUSTOMS VALUATION PURPOSES.) NO INTEREST WILL BE PAID ON ANY OF THE ADVANCE DEPOSITS AND USE OF BANK CREDIT FOR THEM IS PROHIBITED. DEPARTMENT OF TRADE SOURCES STATE THAT ACTUAL IMPORT DUTIES ARE NOT BEING RAISED AT THIS TIME, ALTHOUGH CHECK PRICES ON A NUMBER OF COMMODITIES ARE CURRENTLY BEING SCRUTINIZED FOR POSSIBLE UPWARD REVISION. INCREASED CHECK PRICE OF COURSE MEANS GREATER CUSTOMS DUTY LEVIED.

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4. JANUARY 1 LAW SINGLED OUT ONLY TEXTILES, ON WHICH CHECK PRICE WAS RECENTLY RAISED, AS BEING AFFECTED AT THIS TIME. WITH FEW MINOR EXCEPTIONS, ALL FINISHED TEXXTILES ARE NOW SUBJECT TO THE PRIOR DEPOSIT SCHEME. ROUGH EMBASSY CALCULATION OF THE 1975 VOLUME OF THE TEXTILE IMPORTS IN QUESTION IS \$53 MILLION, WHILE TOTAL US TEXTILE EXPORTS TO INDONESIA WERE \$3 MILLION THAT YEAR. OTHER ITEMS TO WHICH CONSIDERATION FOR PROTECTION IS NOW BEING GIVEN BY DEPARTMENT OF TRADE INCLUDE: CONCRETE IRON, WIRE, NAILS, STEEL PIPES, WATER TANKS, ALUMINUM PLATES AND EXTRUSION, REFRIGERATORS, SEWING MACHINES, BATTERIES, CASSETTE PLAYERS, RICE COOKERS, NEON LAMPS, BATTERY COMPONENTS, WELDING WIRES, PARTS FOR TRAINING AIRCRAFT, AND A VARIETY OF AGRICULTURAL EQUIPMENT. THERE HAS BEEN NO INDICATION WHEN ADDITIONS TO THE LIST OF PROTECTED GOODS MIGHT BE MADE.

5. COMMENT: GOI HAS NOW RESPONDED TO LONG-STANDING PLEASE FOR ASSISTANCE FROM HARD HIT DOMESTIC TEXTILE

INDUSTRY. ALMOST CERTAINLY THE NEW PROTECTIONISM WILL BE EXTENDED TO OTHER TROUBLED DOMESTIC INDUSTRIES. THE NEW REQUIREMENTS DIFFER FROM PRIOR DEPOSIT SCHEMES IMPLEMENTED BY OTHER COUNTRIES IN THAT THEY ARE OF INDEFINITE DURATION AND APPARENTLY ARE NOT INTENDED PRIMARILY TO AID THE BALANCE OF PAYMENTS. GOI REPORTEDLY DID NOT SIMPLY INSTITUTE IMPORT BAN BECAUSE IT FELT EXCEPTIONS WOULD NEED TO BE GRANTED, NECESSITATING IMPORT LICENSES, WHICH IT WISHED TO AVOID. PRESUMABLY IT CHOSE PRIOR DEPOSIT METHOD RATHER THAN SIMPLY HIKING IMPORT DUTIES IN BELIEF THAT LATTER ACTION WOULD HAVE BEEN LESS WELL RECEIVED BY GATT. ONE DEPARTMENT OF TRADE OFFICIAL VOLUNTEERED THAT AS FAR AS HE KNEW THE NEW MOVE WAS NOT A VIOLATION OF GATT. SAME OFFICIAL SPECULATED THAT OVER THE NEXT SEVERAL MONTHS THERE WILL BE ALMOST NO IMPORTS OF THE TEXTILES IN QUESTION AND THAT IN THE LONG RUN IMPORTS OF THESE GOODS WILL FALL BY AT LEAST 50 PERCENT. LIMITED OFFICIAL USE

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PER ENT. GIVEN THE SIZEABLE INCREASE IN COSTS THAT WOULD ACCRUE TO THOSE WHO CHOOSE TO CONTINUE IMPORTING THE LISTED TEXTILES, ALONG WITH THE EXTREME RELUCTANCE OF THE MERCHANTS TO FINANCE THEIR OWN IMPORTS, THIS MAY BE A CONSERVATIVE ESTIMATE. IN ANY CASE, THE EFFECTS OF THE NEW REGULATION ARE BOUND TO BE INFLATIONARY, BOTH BECAUSE OF HIGHER COSTS OF IMPORTS AND BECAUSE DOMESTIC INDUSTRIES ARE UNLIKELY TO BECOME MORE EFFICIENT RAPIDLY IN VIEW OF THEIR PROTECTED STATUS. END COMMENT.

6. WE ARE CANVASSING LOCAL IMPORTERS AS WELL AS OUR COLLEAGUES IN EMBASSIES OF INDONESIA'S MAJOR TRADING PARTNERS FOR THEIR REACTION AND WILL REPORT FURTHER. NEWSOM

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